

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--------------------------|--|---------------------------------------------------|-----------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | | | Local Unit Name Big Bay de Noc School District | County Delta |
| Fiscal Year End 06-30-06 | | Opinion Date 08-16-06 | | Date Audit Report Submitted to State 10-10-06 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|------------------------------------------------------------------------------------------------------------------|-------------------------------------|--------------------------------------------|-------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC | | Telephone Number 906-786-3111 | |
| Street Address 901 Ludington St | | City Escanaba | State Mi |
| | | Zip 49829 | |
| Authorizing CPA Signature  | | Printed Name Raymond B. LaMarche, CPA | |
| | | License Number 1101025531 | |

BIG BAY DE NOC SCHOOL DISTRICT
Cooks, Michigan

BASIC FINANCIAL STATEMENTS

Year Ended June 30, 2006

TABLE OF CONTENTS

| | <u>Page</u> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Independent Auditor's Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 12 |
| Statement of Activities | 13 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 14 |
| Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Assets | 15 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 16 |
| Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities | 17 |
| Statement of Fiduciary Net Assets | 18 |
| Statement of Changes in Fiduciary Net Assets | 19 |
| Notes to the Basic Financial Statements | 20 |
| Required Supplemental Information: | |
| Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund | 35 |
| Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Sinking/Construction Fund | 36 |
| Other Supplemental Information: | |
| Combining Balance Sheet - Nonmajor Governmental Funds | 37 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds | 38 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 39 |



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Big Bay de Noc School District
Cooks, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Big Bay de Noc School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Big Bay de Noc School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Big Bay de Noc School District as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2006, on our consideration of the Big Bay de Noc School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 35 and 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Big Bay de Noc School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company P.L.C.
Anderson, Tackman & Company, PLC
Certified Public Accountants

August 16, 2006

This section of the Big Bay de Noc School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements. These statements are organized so the reader can understand Big Bay de Noc School's finances as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The Fund Financial Statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds, the General Fund and the Sinking/Construction Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Financial Section

Basic Financial Statements

- District Wide Financial Statements

Fund Financial Statements

- Balance Sheet-Governmental Funds
- Statement of Revenues, Expenditures
- Statement of Fiduciary Net Assets
- Notes to Financial Statements

Required Supplemental Information

- Budgetary Comparison Schedule

Other Supplemental Information

- Combining Balance Sheet Non-major Governmental Funds
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Non-major Governmental Funds

The School District as a Whole

The following summarizes the net assets at fiscal year ended June 30, 2006 and 2005:

NET ASSETS SUMMARY

| Assets | <u>2006</u> | <u>2005</u> |
|-------------------------------------------------|---------------------|--------------------|
| Current Assets | \$ 965,877 | \$1,233,879 |
| Capital Assets | <u>\$ 2,739,909</u> | <u>\$2,379,875</u> |
| Total Assets | <u>\$ 3,705,786</u> | <u>\$3,613,754</u> |
| Liabilities | | |
| Current Liabilities | \$ 193,195 | \$ 252,565 |
| Non-Current Liabilities | <u>\$ 131,055</u> | <u>\$ 107,871</u> |
| Total Liabilities | <u>\$ 324,250</u> | <u>\$ 360,436</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | \$ 2,679,602 | \$2,379,875 |
| Restricted for: | | |
| Sinking Fund | \$ 343,172 | \$ 454,739 |
| Unrestricted | <u>\$ 358,762</u> | <u>\$ 418,704</u> |
| Total Net Assets | <u>\$ 3,381,536</u> | <u>\$3,253,318</u> |

The above analysis focuses on the net assets. The School District's net assets were \$3,381,536 as of June 30, 2006. Capital assets, net of related debt, totaled \$2,679,602. The cost of the assets is \$5,007,540, and accumulated depreciation is \$2,267,631. This compares the original cost, less depreciation of the School district's capital assets, used to finance the acquisition of some of these assets. The restricted net assets are restricted for the Sinking Fund in the amount of \$343,172.

BIG BAY DE NOC SCHOOL**Management's Discussion and Analysis**

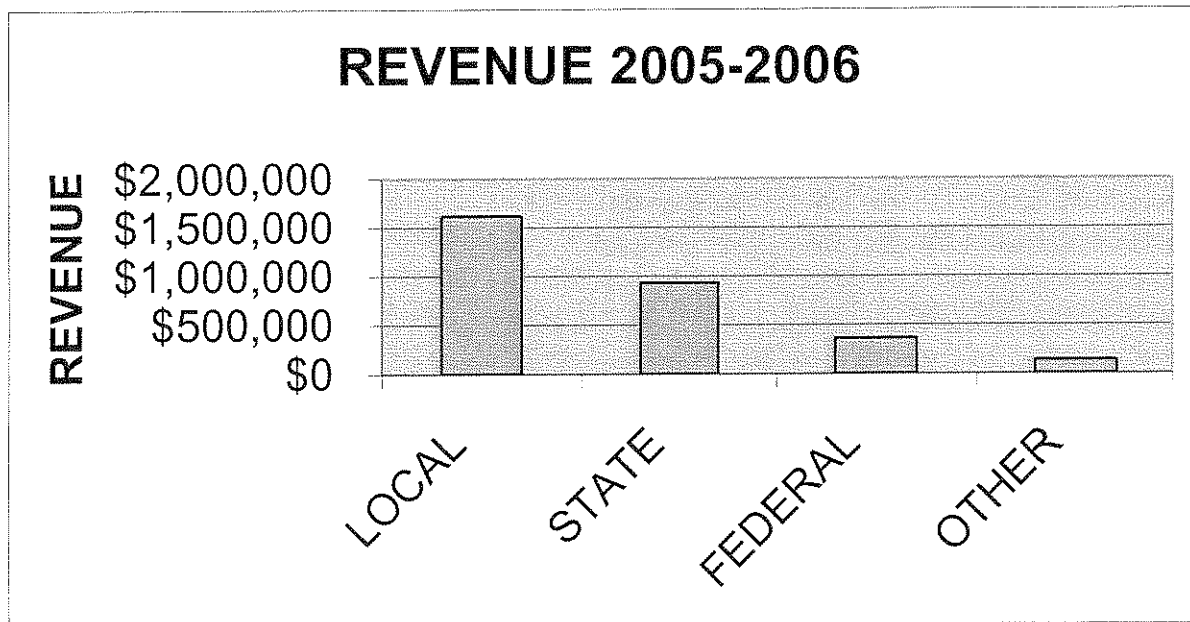
The results of this year's operations for Big Bay de Noc Schools as a whole are reported in the statement of activities, which show the changes in net assets for fiscal year 2006. Following the rules of GASB 34, a revenue and expense comparison to the previous year is shown.

| | | |
|----------------------------------------------|----------------------------|---------------------------|
| Program Revenues: | 2006 | 2005 |
| Charges for Services | \$ 54,782 | \$ 61,467 |
| Operating Grants and Contributions | <u>297,179</u> | <u>364,620</u> |
| Total Program Revenue | <u>\$ 351,961</u> | <u>\$ 426,087</u> |
| General Revenues: | | |
| Property taxes levied for general operations | \$ 1,226,567 | \$1,151,536 |
| Property taxes levied for Sinking Fund | 334,995 | 266,576 |
| State Aid Formula Grant | 851,465 | 917,865 |
| Other | <u>301,896</u> | <u>173,047</u> |
| Total General Revenues | \$ 2,714,923 | \$2,509,024 |
| Total Revenues | <u><u>\$3,066,884</u></u> | <u><u>\$2,935,111</u></u> |
| Expenses: | | |
| Instruction | \$ 1,529,987 | \$1,450,779 |
| Support Services | 922,319 | 920,569 |
| Depreciation-Unallocated | 217,095 | 182,332 |
| Interest on Long-Term Debt | 15,439 | 5,667 |
| Athletics | 74,765 | 73,208 |
| Food Services | 155,861 | 142,404 |
| Other | <u>23,200</u> | <u>(21,580)</u> |
| Total Expenses | <u><u>\$ 2,938,666</u></u> | <u><u>\$2,753,379</u></u> |
| Increase/(Decrease) in net assets | \$ 128,218 | \$ 181,732 |

As indicated above, net assets increased by \$128,218. This increase relates directly to the operations of the district during the year.

Revenues

The following chart illustrates the District's sources of revenues:



Sources of Revenues

Local sources of revenues total \$1,619,398 and includes revenues to the General Fund of \$1,226,567, School Lunch Fund of \$36,191, Athletic Fund of \$18,591, Memorial Fund of \$709, Playground fund of \$2,345, and Sinking Fund of \$334,995. Local sources of revenue totals 53% of the total revenue received. The General Fund receives it's largest share of total revenue from local sources from taxes, which is tied to the high Non-Homestead taxable value. This also is tied to when we have the greatest cash flow for operations.

State sources of revenues total \$930,645 and include revenues to the General Fund of \$917,431. State sources of revenue totals 31% of the total revenue received for 2006, a decrease of 4% from 2005.

Federal sources of revenues total \$361,812 and include revenues to the General Fund of \$294,590 and School Lunch fund of \$67,222. Federal sources of revenue totals 12% of the total revenue received.

Other sources of revenues total \$139,380 and include revenue to the General Fund of \$139,380. Other sources of revenue totals 5% of total revenue received.

Property Taxes

The most significant portion of funding to the District is through local property taxes. A significant portion of local revenue is provided from property taxes for the General Fund and the Sinking Fund. Property tax revenue totaled \$1,561,562. The General Fund local property taxes collected totaled \$1,226,567. The Sinking Fund local property taxes collected totaled \$334,995. The General Fund amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations. Due to the rising non-homestead taxable value our district has fallen under the Headlee Millage Reduction Fraction. In 2003-2004 the district did not receive \$48,601 of the local property taxes. On June 14, 2004 the voters approved up to 2 mills for a Headlee Override. The district levied 1.3084 of these mills in 2005. A voter approved 2.9 Sinking Fund mill levy on the taxable value of all properties, homestead and non-homestead, was levied in 2005-2006. This Sinking Fund millage was voted in on February 17, 1998 for ten years. The revenue generated from the Sinking fund has strict restrictions on how it can be spent. Section 1212 (1) authorizes the following three sinking fund uses:

- The purchase of real estate for school building sites.
- The Construction of school buildings; and
- The repair of school buildings.

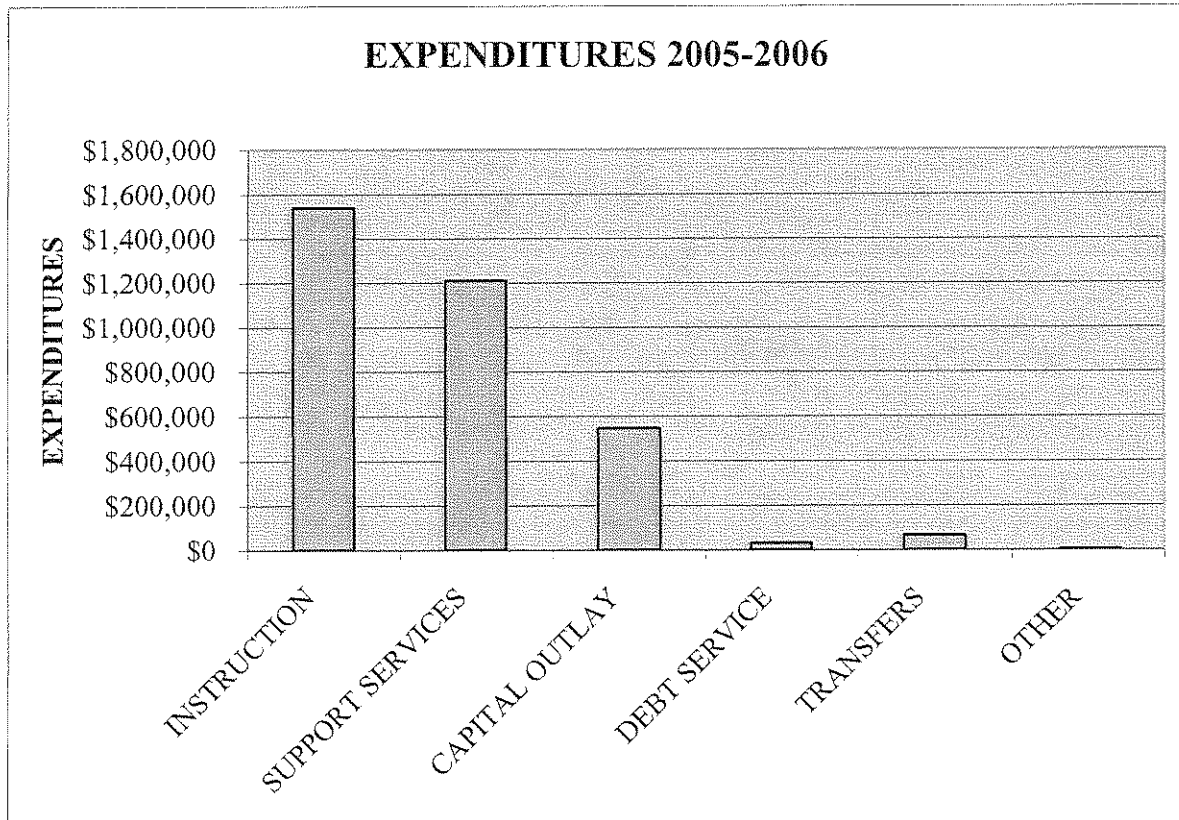
Over the last 3 years taxable values have increased by 23.2% for homestead and non-homestead properties.

Unrestricted State Aid Foundation Allowance

The foundation allowance is funding from the state for each student set annually. The District's foundation allowance is \$6,954 per student for the 2005-2006 fiscal year, which is an increase of \$175 per student over the 2004-2005 foundation allowance. The number of students to be funded is calculated by student enrollment blended at 75% of current year September count and 25% of prior year February count. Due to declining enrollment this count is blended with the previous two years count and if this blend is greater, the district can use that count. The 3 year blend for Big Bay de Noc School total for fiscal year 2005-06 was 298.86. The overall funding is then reduced by the District's non-homestead tax levy based on 18 mills. The district is facing declining enrollment at an alarming rate and with no foundation increases we are not being funded at our full foundation allowance.

Expenditures

The following chart illustrates the District's expenditures:



Expenses include Instruction \$1,539,449, Support Services \$1,210,662, Capital Outlay \$547,012, Debt Service \$31,972, Transfers \$67,024, and other \$3,801. School Lunch Fund and Athletic Fund expenses are included in Support Services.

Capital Assets and Debt Administration**Capital Assets**

At June 30, 2006, the District had \$5,007,540 invested in a broad range of capital assets, including land, buildings, furniture, and equipment.

| | 2006 | 2005 |
|-------------------------------|--------------------|--------------------|
| Assets | | |
| Land | \$ 500 | \$ 500 |
| Construction in Progress | 81,409 | 183,802 |
| Land Improvements | 198,915 | 198,915 |
| Buildings and Improvements | 3,568,991 | 3,013,985 |
| Vehicles | 487,891 | 526,801 |
| Machinery and Equipment | <u>669,834</u> | <u>620,318</u> |
| Total | <u>5,007,540</u> | <u>4,544,321</u> |
| Less Accumulated Depreciation | <u>2,267,631</u> | <u>2,164,446</u> |
| Net Total | <u>\$2,739,909</u> | <u>\$2,379,875</u> |

This was a net increase in capital assets of \$360,034 over last year and includes land improvements, building improvements, vehicles, and equipment. Depreciation expense for the year is \$217,095.

Debt

During the 2006 school year, the District borrowed \$75,000 for the purchase of a new school bus. In 2006, the District paid \$14,693 on the loan balance leaving an ending balance of \$60,307 on the school bus loan. The District has no other general obligation debt payable.

Economic Factors and Next Year's Budgets and Rates

The Board of Education and administration consider many factors when setting the School District's 2006 fiscal year budget. Two of the major factors affecting the budget are the student count and the State funding of unrestricted foundation allowance.

The 2007 budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. As a result, district funding is heavily dependent on the state's ability to fund local school operations. Once the final student count and related per pupil funding is validated, state law requires the District to amend the budget if actual district resources are not sufficient to fund original appropriations. Since the District's revenue is heavily dependent upon state funding, actual funding depends on the state's ability to collect revenues to fund its appropriations to school districts.

Original vs. Revised Budget

The uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget three times during the school year. For Fiscal year 2005-2006, the budget was revised in October 2005, February 2006, and June 2006.

General Fund Revenues

| | |
|--------------------------------|-------------|
| Total revenues-June revision | \$2,577,784 |
| Total revenues-original budget | \$2,535,779 |
| Difference | \$ 42,005 |

Increase in Revenue Budget

The District's actual general fund revenues were \$184 more than the revised budget.

A significant revised budget adjustment for the fiscal year was:

- An increased amount of Impact Aid
- Received revenue from a timber sale

General Fund Expenditures

| | |
|------------------------------------|-------------|
| Total expenditures-June revision | \$2,575,129 |
| Total expenditures-original budget | \$2,580,674 |
| Difference | \$ 5,545 |

Decrease in Expenditure Budget

The District's actual general fund expenditures were \$52,378 more than the revised budget.

A significant revised budget adjustment for the fiscal year was:

- Another retirement that was not originally projected.
- Cut backs in travel and supplies.
- Changed health insurance in October to a PPO plan.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office at Big Bay de Noc School, 8928 00.25 Road, Cooks, Michigan, 49817.

BIG BAY DE NOC SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

| | <u>Governmental Activities</u> |
|-------------------------------------------------|------------------------------------|
| ASSETS: | |
| Current Assets: | |
| Cash and Equivalents | \$ 719,751 |
| Accounts Receivable | 231,048 |
| Due from Other Funds | 600 |
| Inventories | <u>14,478</u> |
| Total Current Assets | <u>965,877</u> |
| Non-Current Assets: | |
| Capital Assets - net | <u>2,739,909</u> |
| Total Assets | <u><u>\$ 3,705,786</u></u> |
| LIABILITIES: | |
| Current Liabilities: | |
| Accounts Payable | \$ 3,220 |
| Deferred Revenue | 1,721 |
| Accrued Payroll and Related Liabilities | 140,321 |
| Current Maturities of Long-Term Debt | <u>47,933</u> |
| Total Current Liabilities | <u>193,195</u> |
| Non-Current Liabilities: | |
| Bonds Payable | 22,445 |
| Note Payable | 60,307 |
| Compensated Absences Payable | 51,236 |
| Early Retirement Payable | 45,000 |
| Less Current Maturities Reported Above | <u>(47,933)</u> |
| Total Non-Current Liabilities | <u>131,055</u> |
| Total Liabilities | <u><u>\$ 324,250</u></u> |
| NET ASSETS: | |
| Invested in Capital Assets, Net of Related Debt | \$ 2,679,602 |
| Restricted for: | |
| Sinking Fund | 343,172 |
| Unrestricted | <u>358,762</u> |
| Total Net Assets | <u><u>\$ 3,381,536</u></u> |

See accompanying notes to financial statements.

BIG BAY DE NOC SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

| | | <u>Program Revenues</u> | | Net (Expense) |
|----------------------------------------------|---------------------|-------------------------|----------------------|---------------------|
| | | | | Revenue and |
| | | | | Changes in |
| | | | | Net Assets - |
| | | | | Governmental |
| | | | | Activities |
| | <u>Expenses</u> | <u>Charges for</u> | <u>Operating</u> | |
| | | <u>Services</u> | <u>Grants and</u> | |
| | | | <u>Contributions</u> | |
| FUNCTIONS/PROGRAMS: | | | | |
| Instruction: | | | | |
| Basic Programs | \$ 1,138,570 | \$ - | \$ - | \$ (1,138,570) |
| Added Needs | 391,417 | - | 213,689 | (177,728) |
| | <u>1,529,987</u> | <u>-</u> | <u>213,689</u> | <u>(1,316,298)</u> |
| | | | | |
| Support Services: | | | | |
| Pupil | 31,332 | - | - | (31,332) |
| School Improvement | 3,998 | - | - | (3,998) |
| Technology | 44,810 | - | - | (44,810) |
| Professional Development | 24,685 | - | - | (24,685) |
| Instructional Staff - Library | 42,407 | - | - | (42,407) |
| Board of Education | 18,576 | - | - | (18,576) |
| Executive Administration | 121,561 | - | - | (121,561) |
| Office of the Principal | 136,350 | - | - | (136,350) |
| Fiscal Services | 57,253 | - | - | (57,253) |
| Community Services | 2,751 | - | 3,054 | 303 |
| Operation and Maintenance | 197,011 | - | - | (197,011) |
| Pupil Transportation | 207,063 | - | - | (207,063) |
| Information Services | 4,041 | - | - | (4,041) |
| Central Services | 30,481 | - | - | (30,481) |
| | <u>922,319</u> | <u>-</u> | <u>3,054</u> | <u>(919,265)</u> |
| | | | | |
| Other: | | | | |
| Depreciation - Unallocated | 217,095 | - | - | (217,095) |
| Interest on Long-Term Debt | 15,439 | - | - | (15,439) |
| Athletics | 74,765 | 18,591 | - | (56,174) |
| Food Services | 155,861 | 36,191 | 80,436 | (39,234) |
| Other | 23,200 | - | - | (23,200) |
| | <u>486,360</u> | <u>54,782</u> | <u>80,436</u> | <u>(351,142)</u> |
| | | | | |
| Total Governmental Activities | <u>\$ 2,938,666</u> | <u>\$ 54,782</u> | <u>\$ 297,179</u> | <u>(2,586,705)</u> |
| | | | | |
| General Revenues: | | | | |
| Taxes: | | | | |
| Property Taxes Levied for General Operations | | | | 1,226,567 |
| Property Taxes Levied for Sinking Fund | | | | 334,995 |
| State Aid Formula Grant | | | | 851,465 |
| Schools and Roads Grant | | | | 130,171 |
| Investment Earnings | | | | 15,649 |
| State Settlement for Durant Suit | | | | 3,801 |
| Miscellaneous Sources | | | | <u>152,275</u> |
| | | | | <u>2,714,923</u> |
| | | | | |
| CHANGE IN NET ASSETS | | | | 128,218 |
| | | | | |
| Net Assets, Beginning of Year | | | | <u>3,253,318</u> |
| | | | | |
| NET ASSETS, END OF YEAR | | | | <u>\$ 3,381,536</u> |

See accompanying notes to financial statements.

BIG BAY DE NOC SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2006

| | General | Sinking/ Construction | Other Nonmajor Governmental Funds | Total Governmental Funds |
|-----------------------------------------|-------------------|--------------------------|--------------------------------------------|--------------------------------|
| ASSETS: | | | | |
| Cash and Equivalents | \$ 325,138 | \$ 347,315 | \$ 47,298 | \$ 719,751 |
| Accounts Receivable | 41,301 | - | 410 | 41,711 |
| Due from the State of Michigan | 189,337 | - | - | 189,337 |
| Due from Other Funds | 22,733 | - | 10,763 | 33,496 |
| Inventory | 11,061 | - | 3,417 | 14,478 |
| | | | | |
| TOTAL ASSETS | <u>\$ 589,570</u> | <u>\$ 347,315</u> | <u>\$ 61,888</u> | <u>\$ 998,773</u> |
| LIABILITIES: | | | | |
| Accounts Payable | \$ 3,220 | \$ - | \$ - | \$ 3,220 |
| Due to Other Funds | 2,784 | 4,143 | 25,969 | 32,896 |
| Accrued Payroll and Related Liabilities | 140,321 | - | - | 140,321 |
| Deferred Revenue | - | - | 1,721 | 1,721 |
| | | | | |
| TOTAL LIABILITIES | <u>146,325</u> | <u>4,143</u> | <u>27,690</u> | <u>178,158</u> |
| FUND BALANCES: | | | | |
| Fund Balance: | | | | |
| Reserved for Inventory | 11,061 | - | 3,417 | 14,478 |
| Unreserved: | | | | |
| Designated | 96,236 | - | - | 96,236 |
| Undesignated | 335,948 | 343,172 | - | 679,120 |
| Unreserved, Reported in Nonmajor: | | | | |
| Special Revenue | - | - | 20,571 | 20,571 |
| Debt Service | - | - | 410 | 410 |
| Capital Projects | - | - | 9,800 | 9,800 |
| | | | | |
| TOTAL FUND BALANCES | <u>443,245</u> | <u>343,172</u> | <u>34,198</u> | <u>820,615</u> |
| | | | | |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 589,570</u> | <u>\$ 347,315</u> | <u>\$ 61,888</u> | <u>\$ 998,773</u> |

See accompanying notes to financial statements.

BIG BAY DE NOC SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2006

| | | | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|--------|------------------|
| Total fund balances - governmental funds | | \$ | 820,615 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of the assets is \$5,007,540, and the accumulated depreciation is \$2,267,631. | | | |
| | | | 2,739,909 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the specific governmental funds. Long-term liabilities at year-end consist of the following: | | | |
| Bonds payable | \$ | 22,445 | |
| Note payable | | 60,307 | |
| Compensated absences | | 51,236 | |
| Early retirement payable | | 45,000 | (178,988) |
| | | | |
| Total net assets - governmental activities | | \$ | <u>3,381,536</u> |

See accompanying notes to financial statements.

BIG BAY DE NOC SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2006

| | General | Sinking/ Construction | Other Nonmajor Governmental Funds | Total Governmental Funds |
|--------------------------------------|-------------------|--------------------------|--------------------------------------------|--------------------------------|
| REVENUES: | | | | |
| Local Sources | \$ 1,226,567 | \$ 334,995 | \$ 57,836 | \$ 1,619,398 |
| State Sources | 917,431 | - | 13,214 | 930,645 |
| Federal Sources | 294,590 | - | 67,222 | 361,812 |
| Other | 139,380 | - | - | 139,380 |
| TOTAL REVENUES | <u>2,577,968</u> | <u>334,995</u> | <u>138,272</u> | <u>3,051,235</u> |
| EXPENDITURES: | | | | |
| Instruction: | | | | |
| Basic Programs | 1,148,032 | - | - | 1,148,032 |
| Added Needs | 391,417 | - | - | 391,417 |
| Total Instruction | <u>1,539,449</u> | <u>-</u> | <u>-</u> | <u>1,539,449</u> |
| Support Services: | | | | |
| Pupil | 31,332 | - | 230,626 | 261,958 |
| School Improvement | 3,998 | - | - | 3,998 |
| Technology | 94,324 | - | - | 94,324 |
| Professional Development | 24,685 | - | - | 24,685 |
| Instructional Staff - Library | 42,407 | - | - | 42,407 |
| Board of Education | 18,576 | - | - | 18,576 |
| Executive Administration | 121,561 | - | - | 121,561 |
| Office of the Principal | 139,925 | - | - | 139,925 |
| Fiscal Services | 62,160 | - | - | 62,160 |
| Community Services | - | - | 2,751 | 2,751 |
| Operation and Maintenance | 196,732 | - | - | 196,732 |
| Pupil Transportation | 207,063 | - | - | 207,063 |
| Information Services | 4,041 | - | - | 4,041 |
| Central Services | 30,481 | - | - | 30,481 |
| Total Support Services | <u>977,285</u> | <u>-</u> | <u>233,377</u> | <u>1,210,662</u> |
| Capital Outlay | 75,000 | 452,614 | 19,398 | 547,012 |
| Debt Service | 31,972 | - | - | 31,972 |
| Other | 3,801 | - | - | 3,801 |
| TOTAL EXPENDITURES | <u>2,627,507</u> | <u>452,614</u> | <u>252,775</u> | <u>3,332,896</u> |
| EXCESS REVENUES (EXPENDITURES) | <u>(49,539)</u> | <u>(117,619)</u> | <u>(114,503)</u> | <u>(281,661)</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Interest Earned | 8,307 | 6,052 | 1,290 | 15,649 |
| Loan Proceeds | 75,000 | - | - | 75,000 |
| Operating Transfers In | - | - | 67,024 | 67,024 |
| Operating Transfers Out | (67,024) | - | - | (67,024) |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>16,283</u> | <u>6,052</u> | <u>68,314</u> | <u>90,649</u> |
| NET CHANGES IN FUND BALANCES | <u>(33,256)</u> | <u>(111,567)</u> | <u>(46,189)</u> | <u>(191,012)</u> |
| Fund Balance, Beginning of Year | <u>476,501</u> | <u>454,739</u> | <u>80,387</u> | <u>1,011,627</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 443,245</u> | <u>\$ 343,172</u> | <u>\$ 34,198</u> | <u>\$ 820,615</u> |

See accompanying notes to financial statements.

BIG BAY DE NOC SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ (191,012)

The change in fund balances reported for governmental activities in the statement of activities is different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense (\$217,095) is less than capital outlays (\$577,127) for the period.

360,032

Proceeds from the issuance of long-term debt is recorded as revenue in the governmental funds, but is recorded as a liability in the statement of net assets.

(75,000)

Repayment of principal on debt is an expenditure in the governmental funds but reduces the debt liability in the statement of net assets.

16,533

In the statement of activities expenses for compensated absences and special termination benefits for early retirement are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount paid out during the year.

17,665

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ 128,218

See accompanying notes to financial statements.

BIG BAY DE NOC SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

| | Private- Purpose Trusts | Agency Funds |
|---------------------------|-------------------------------|-----------------|
| ASSETS: | | |
| Cash and Equivalents | \$ 10,029 | \$ 21,409 |
| LIABILITIES: | | |
| Due to Other Funds | \$ 600 | \$ - |
| Due to Student Groups | - | 21,409 |
| TOTAL LIABILITIES | \$ 600 | \$ 21,409 |
| NET ASSETS | | |
| Reserved for Scholarships | \$ 9,429 | |

See accompanying notes to financial statements.

BIG BAY DE NOC SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the Year Ended June 30, 2006

| | |
|-------------------------------|-------------------------------|
| | Private- Purpose Trusts |
| ADDITIONS: | |
| Interest Earned | \$ 384 |
| DEDUCTIONS: | |
| Scholarships Awarded | 300 |
| CHANGE IN NET ASSETS | 84 |
| Net Assets, Beginning of Year | 9,345 |
| NET ASSETS, END OF YEAR | \$ 9,429 |

See accompanying notes to financial statements.

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Big Bay de Noc School District (The School District) conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the significant policies:

(1) Reporting Entity – The Board of Education, a seven member group constituting an ongoing entity, is the level of government which has governing responsibility over all activities related to public elementary and secondary school education within the jurisdiction of the District. In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units as required under Government Accounting Standards Board Statement number 14, "The Financial Reporting Entity", as amended by GASB Statement number 39, "Determining whether Certain Organizations are Component Units". Based upon the criteria outlined in these statements, the financial statements of the Big Bay de Noc School District contain all the funds controlled by the District's Board of Education. There are no other entities which meet the criteria to be considered a blended component unit or a discretely presented component of the District, nor is the District a component unit of another entity.

(2) Basic Financial Statements – Government-Wide – The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

In the government-wide Statement of Net Assets, both the governmental activities column (a) is presented on a consolidated basis, (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts:

- Invested in capital assets, net of related debt – This category consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- Restricted net assets – This category consists of net assets with constraints placed on the use of the assets either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of the categories listed above.

The District first utilizes restricted resources to finance qualifying activities.

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, and others).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the School District as an entity and the change in the District's net assets resulting from the current year's activities. The government-wide financial statements do not include any fiduciary funds of the School District.

(3) Basic Financial Statements – Fund Financial Statements – The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate self-balancing set of accounts that comprise its' assets, liabilities, fund balances, revenues and expenditures. Government resources are allocated and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The various funds are grouped in the fund financial statements in this report into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures of that individual governmental fund are at least 10 percent of the corresponding total of all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds combined.

The School District reports the General Fund and the Sinking/Construction fund as major funds in accordance with the above criteria.

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The fund types of the School District are described below:

Governmental Funds

Major Funds:

General Fund - The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Sinking/Construction Fund – This fund accounts for the proceeds from 2.9 mill levy that was passed in 1998 to be used for improving, remodeling or repairing the Districts facilities.

Nonmajor Funds:

Special Revenue Funds - Special revenue funds are used to account for the activities of specific school service revenue sources such as the School Lunch Fund, Athletic, Memorial Fund and Playground Fund.

Capital Project Funds - Capital project funds are used to account for financial resources to be used for the acquisition, construction, or major repair of major capital facilities or other capital assets, including equipment. The Sinking/ Construction Fund, Major Maintenance Fund and the Library Construction Fund are the capital project funds of the School District.

Debt Retirement Funds - Debt retirement funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the school district in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Private Purpose Trust Funds and Agency Funds.

- a. Private-Purpose Trust Funds – Private-Purpose trust funds are used to account for the receipts and expenditures of assets held under a trust agreement. The Private-Purpose trust fund maintained by the District is the Scholarship Fund.
- b. Agency Funds - Agency funds are used to account for assets held by the District as trustee or agent for individuals, private organizations and other governmental units. The agency fund maintained by the District is the Student Activities Fund.

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(4) Measurement Focus and Basis of Accounting – The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus. The government-wide financial statements uses the economic resources measurement focus.

- a. Accrual Basis – Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.
- b. Modified Accrual Basis – The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when the resource is both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures are generally recognized when the related fund liability is incurred with certain exceptions, such as interest of general long-term debt, which is recognized when due.

(5) Inventory – The General Fund and the School Lunch Fund utilize the consumption method of recording the inventory of food and supplies held for consumption, and accordingly, the inventory is recorded as an expenditure when it is used. This inventory is valued at the lower of cost (first-in, first-out) or market.

(6) Capital Assets – The accounting and reporting treatment applied to capital assets depends on whether the assets are reported in the government-wide financial statements or the fund financial statements.

Government-wide Statements

In the government-wide financial statements fixed assets are capitalized. All fixed assets are valued at historical cost or estimated historical cost if actual cost is unavailable. Donated fixed assets are recorded at their estimated fair market value at the date of donation.

Depreciation on all exhaustible fixed assets is recorded as an unallocated expense in the Statement of Activities with accumulated depreciation being reflected in the Statement of Net Assets. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|-------------------------|---------------|
| Buildings and additions | 15 - 40 years |
| Land improvements | 15 years |
| Vehicles | 10 years |
| Equipment | 5 – 15 years |

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

(7) Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – CASH AND EQUIVALENTS

The composition of cash and equivalents as reported in the Statement of Net Assets and the Statement of Fiduciary Net Assets is presented below:

| | | |
|------------------------------------|-----------|-------------------|
| Government-wide Statement of | | |
| Net Assets | | \$ 719,751 |
| Statement of Fiduciary Net Assets: | | |
| Private Purpose Trusts | \$ 10,029 | |
| Agency Funds | 21,409 | 31,438 |
| Total Cash and Equivalents | | <u>\$ 751,189</u> |
| Composition of balances: | | |
| Imprest Cash | | \$ 250 |
| Deposits: | | |
| Checking Accounts | | 209,892 |
| Savings Accounts | | <u>541,047</u> |
| Total | | <u>\$ 751,189</u> |

Cash and cash equivalents consist primarily of short-term investments with an original maturity of three months or less and are carried at cost, which approximates fair value.

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE B – CASH AND EQUIVALENTS (continued)

Attorney General's Opinion no. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

Interest Rate Risk. The district carries no significant interest rate risk as all of its holding are in bank accounts or mutual funds with a high degree of liquidity.

Credit Risk. State law limits investments in commercial paper to the top two ratings issued by national recognized statistical rating organizations with a maximum maturity of 270 days. As of June 30, 2006, the District did not hold any commercial paper.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned. At June 30, 2006 the District held the following insured and uninsured amounts:

| <u>Deposits</u> | <u>Bank Balance</u> | <u>Book Balance</u> |
|-----------------|-------------------------|-------------------------|
| Insured | \$ 373,030 | \$ 371,064 |
| Uninsured | 487,361 | 380,125 |
| Total | <u>\$ 860,391</u> | <u>\$ 751,189</u> |

Concentration of Credit Risk. The District has no significant concentration of credit risk due to the fact that its deposits are with area banks or with the MILAF mutual fund.

Foreign Currency Risk. The District has no foreign currency risk as it has no deposits or investments in foreign currency.

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE C – CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

| | Balance July 1, 2005 | Additions | Transfers/ Disposals | Balance June 30, 2006 |
|---------------------------------------|-------------------------|------------|-------------------------|--------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 500 | \$ - | \$ - | \$ 500 |
| Construction in Progress | 183,802 | 81,409 | 183,802 | 81,409 |
| Capital Assets Being Depreciated: | | | | |
| Land Improvements | 198,915 | - | - | 198,915 |
| Buildings and Improvements | 3,013,985 | 555,006 | - | 3,568,991 |
| Vehicles | 526,801 | 75,000 | 113,910 | 487,891 |
| Machinery and Equipment | 620,318 | 49,516 | - | 669,834 |
| Total depreciable assets | 4,360,019 | 679,522 | 113,910 | 4,925,631 |
| Total capital assets | 4,544,321 | 760,931 | 297,712 | 5,007,540 |
| Accumulated Depreciation | 2,164,446 | 217,095 | 113,910 | 2,267,631 |
| Net depreciable capital assets | 2,195,573 | 462,427 | - | 2,658,000 |
| Net Total | \$ 2,379,875 | \$ 543,836 | \$ 183,802 | \$ 2,739,909 |

Depreciation expense amounted to \$217,095 for the year ended June 30, 2006 and the entire amount was recorded as depreciation expense – unallocated in the Statement of Activities.

NOTE D - ACCRUED FRINGE BENEFITS

The District, as part of the various employment contracts with its personnel, allows for annual sick and vacation days. Each employment contract specifies an accumulation policy for unused sick and vacation days, as follows:

Vacation Days – Various employees for the District are allowed to accumulate vacation days in the year when they are earned. The liability to the District for employee unused vacation has been calculated to be \$19,082 as of June 30, 2006.

Sick Pay – The District allows the accumulation of sick pay, however, sick pay is not vested and no payments of accumulated sick pay are required upon retirement. Accordingly, accumulated sick pay of \$337,010 as of June 30, 2006 is not recorded as a liability in the Statement of Net Assets.

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D - ACCRUED FRINGE BENEFITS (continued)

Retirement Bonus – Teacher who has at least fifteen consecutive years of service in the District shall generally be entitled to a bonus of ten percent of their previous year's salary upon retirement.

Employees other than teachers, qualifying for retirement as determined by Michigan Public School Employee Retirement System shall receive the greater of one days pay for each year worked or one-third of the amount of their accumulated sick leave.

The accumulated retirement bonus for qualified employees as reported in the Statement of Net Assets as of June 30, 2006 was \$32,154.

Early Retirement Incentive – During the year ended June 30, 2004 the District offered eligible employees an early retirement incentive. The District will pay each eligible individual \$30,000 and it will be paid in six annual installments of \$5,000 beginning January 1, 2004. Three employees accepted the early retirement incentive and received payments during the year ended June 30, 2006 totaling \$15,000. This leaves the District a recorded liability of \$45,000 in the Statement of Net Assets.

NOTE E - DEFERRED REVENUE

Deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Deferred revenue represents unexpended funds received or receivable from state and federal project grants. Deferred revenue at June 30, 2006 consisted of the following:

Hot Lunch Fund:

Inventory

\$ 1,910

NOTE F – SHORT-TERM BORROWING

During the year ended June 30, 2006, the School District borrowed \$350,000 for cash flow purposes. The following is a summary of the short-term debt for the year ending June 30, 2006:

| | Balance 7/1/2005 | Additions | Deductions | Balance 6/30/2006 |
|-----------------|---------------------|------------|--------------|----------------------|
| Short-term debt | \$ - | \$ 350,000 | \$ (350,000) | \$ - |

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE G - GENERAL LONG-TERM DEBT

The following is a summary of the change in general long-term debt for the year ending June 30, 2006:

| | Durant Bonds | Notes Payable | Accrued Fringe Benefits | Total |
|------------------------|------------------|------------------|-------------------------------|-------------------|
| Balance, July 1, 2005 | \$ 24,285 | \$ - | \$ 113,901 | \$ 138,186 |
| Additions | - | 75,000 | - | 75,000 |
| Retirements | (1,840) | (14,693) | (17,665) | (34,198) |
| Balance, June 30, 2006 | <u>\$ 22,445</u> | <u>\$ 60,307</u> | <u>\$ 96,236</u> | <u>\$ 178,988</u> |

At June 30, 2006 the School District's long-term debt consisted of the following:

| | Total Due | Amounts Due Within One Year |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-----------------------------------|
| Durant Bonds Payable: | | |
| Due in annual installments of principal and interest at an interest rate of 4.76%. Payments are due annually on May 15th, until May 2013. The State of Michigan makes an annual appropriation which is the only revenue source for making the annual debt service payment. If the State of Michigan fails to make the annual appropriation, the District is under no obligation to make the payment. | \$ 22,445 | \$ 1,927 |
| Note Payable: | | |
| A \$75,000 note for the purchase of a 2006 bus. The note calls for 48 monthly payments of \$1,696 and bears an interest rate of 4.15%. | 60,307 | 18,197 |
| Accrued Expenses: | | |
| Retirement bonuses, accrued vacation and early retirement incentives. | \$ 96,236 | \$ 27,809 |
| Total | <u>\$ 178,988</u> | <u>\$ 47,933</u> |

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE G - GENERAL LONG-TERM DEBT (continued)

Debt service requirements on long-term debt at June 30, 2006 are as follows:

| Year Ending 6/30 | Durant Bonds Payable | | Note Payable | | Early Retirement Incentive |
|---------------------|----------------------|-----------------|------------------|-----------------|----------------------------------|
| | Principal | Interest | Principal | Interest | |
| 2007 | \$ 1,927 | \$ 743 | \$ 18,197 | \$ 2,159 | \$ 15,000 |
| 2008 | 2,019 | 650 | 18,966 | 1,390 | 15,000 |
| 2009 | 2,116 | 554 | 19,769 | 587 | 15,000 |
| 2010 | 2,216 | 453 | 3,375 | 16 | - |
| 2011 | 2,322 | 348 | - | - | - |
| 2012-2013 | 11,845 | 3,421 | - | - | - |
| Total | <u>\$ 22,445</u> | <u>\$ 6,169</u> | <u>\$ 60,307</u> | <u>\$ 4,152</u> | <u>\$ 45,000</u> |

NOTE H - DESIGNATED FUND BALANCE

Fund balance has been designated in the general fund for the year ended June 30, 2006 as follows:

| | |
|------------------------------------------|------------------|
| Retirement benefits/compensated absences | <u>\$ 96,236</u> |
|------------------------------------------|------------------|

NOTE I - PROPERTY TAXES

Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1, and payable by February 28 of the subsequent year. The School District tax is collected by the various local tax collecting units (townships, cities, etc.). Any real property taxes that are delinquent at March 1 are purchased by the Delta County and Schoolcraft County Delinquent Tax Revolving Funds, thereby reducing the School District taxes receivable to only those personal property taxes which are uncollected and delinquent. The District tax rates are 18.0000 mills per \$1,000 taxable value on non-homestead property for general operations and 2.900 mills per \$1,000 taxable value on both homestead and non-homestead property for the sinking fund.

NOTE J - RETIREMENT PLAN

Plan Description - The School District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing, multiple-employer, statewide public employee retirement plan governed by the State of Michigan. The District's total annual payroll which was eligible compensation for MPERS for the year ended June 30, 2006 was \$1,254,276.

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE J - RETIREMENT PLAN (continued)

All non-student employees are eligible to participate in the MPSERS. Benefits vest after 10 years of service. Employees under the Basic Plan may retire at age 55 with 30 years of credited service, or at age 60 with 10 or more years of service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both Basic and MIP plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The System also provides survivor, death and disability benefits.

Benefits are paid monthly over the member's lifetime and are equal to 1.5% of the members' final average compensation multiplied by the member's years of credited service. The final average compensation period for Basic members is 60 consecutive months and for MIP members it is 36 consecutive months. Also under MPSERS, retirees have the option of continuing health, dental and vision coverage, with a portion of the cost being borne by them.

Contribution Required and Made - The District is required by state statute to contribute 16.34%, for the period of October 1, 2005 to September 30, 2006, of all eligible employees' salaries to the System. Employees who are members of the MIP (membership is required for employees hired after December 31, 1989) are required by statute to contribute an additional 4% of their salary to the Plan. Total School District contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$200,740, \$177,001, and \$196,116, respectively, and employee contributions were \$36,435, \$34,702, and \$36,809, respectively, which were equal to the required contributions for each year.

Post Employment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

MPSERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to MPSERS at P.O. Box 30673, Lansing, MI 48909-8103, or by calling (517) 322-5103.

NOTE K - STATE FOUNDATION REVENUE

For the fiscal year ended June 30, 1995 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE K - STATE FOUNDATION REVENUE (continued)

allowance was based on 25 percent of pupil membership count taken in February of 2005 and 75 percent of pupil membership count taken in September of 2005.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October through August. The local revenue is recognized as outlined in Note I which discusses property taxes.

NOTE L - BUDGETS AND BUDGETARY ACCOUNTING

The School District follows the procedures below in establishing the budgetary data reflected in the financial statements.

1. In June, the superintendent submits to the School Board proposed operating budgets for the fiscal year commencing the following July 1. Proposed budgets include projected expenditures and the means of financing them.
2. Numerous opportunities exist for public comment during the budget process, including at least two formal public hearings.
3. At the June School Board meeting, the budgets for the ensuing year are legally enacted through adoption by the Board and reference thereto in the Board minutes.
4. The general statute governing District budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts in the financial statements are as originally adopted or amended by the School Board. Any unexpended appropriations lapse at year-end.

NOTE M - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring property and casualty. The District purchases commercial insurance coverage to cover the risk of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the school. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE N – OTHER COMMITMENTS AND CONTINGENCIES

The retiree health, dental and vision coverage under the Michigan Public School Employees Retirement System is currently funded on a pay-as-you-go basis. This funding policy is being challenged in the state courts. The outcome of this litigation and its potential effect on the School District are uncertain as of the date of these financial statements.

The District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the District as of June 30, 2006.

Subsequent to June 30, 2006, the District was informed that it had not calculated the Headlee rollback on the mills levied for the sinking fund for the fiscal year ended June 30, 2006. The calculation has not been made to determine the effect, if any, on the amount of mills levied for the sinking fund. If it is discovered that the millage rate should have been rolled back, the District will be required to make up the over capture of the sinking fund tax revenue in the 2006/2007 fiscal year by reducing the total mills levied to make up the difference.

NOTE O – SINKING/CONSTRUCTION FUND

In 1998, a ten year sinking fund millage of 2.9 mills was passed by the voters of the school district. The revenue generated from the millage is to be used for the purpose of purchasing, erecting, completing, remodeling or repairing facilities but is not to be used for routine custodial and janitorial services.

NOTE P – SINGLE AUDIT

OMB Circular A-133 requires entities that expend more than \$500,000 in federal awards to have a single audit as outlined in the OMB Circular. For the year ended June 30, 2006, the District did not expend more than \$500,000 in federal awards and therefore a single audit was not required in 2006.

NOTE Q – INTERFUND BALANCES AND TRANSFERS

Individual fund interfund receivable and payable balances at June 30, 2006 resulted from a time lag between the dates that either, interfund goods or services are provided or reimbursable expenditures occur, or payments between funds are made. The interfund receivable and payable balances are as follows:

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE Q – INTERFUND BALANCES AND TRANSFERS (continued)

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|--------------|---------------------------------|----------------------|------------------------------|
| School Lunch | \$ 527 | | |
| Playground | 2,257 | | |
| Subtotal | <u>2,784</u> | General Fund | <u>\$ 2,784</u> |
| Athletic | <u>23</u> | School Lunch | <u>23</u> |
| | | Major Maintenance | 11,925 |
| | | Scholarship | 600 |
| | | Athletic | 1,548 |
| | | Memorial | 1,863 |
| | | Library Construction | 2,654 |
| | | Sinking/Construction | <u>4,143</u> |
| General Fund | <u>22,733</u> | Subtotal | <u>22,733</u> |
| Playground | <u>1,674</u> | Memorial | <u>1,674</u> |
| | | Major Maintenance | 224 |
| | | Library Construction | <u>6,058</u> |
| Memorial | <u>6,282</u> | Subtotal | <u>6,282</u> |
| Total | <u>\$ 33,496</u> | Total | <u>\$ 33,496</u> |

Interfund operating transfers for the year ended June 30, 2006 were made from the General Fund to the School Lunch and Athletic funds to support the operations of those activities. Interfund transfers were as follows:

| | <u>Transfer In</u> | <u>Transfer Out</u> |
|-------------------|------------------------|-------------------------|
| General Fund | \$ - | \$ 67,024 |
| School Lunch Fund | 11,637 | - |
| Athletic Fund | <u>55,387</u> | <u>-</u> |
| Total | <u>\$ 67,024</u> | <u>\$ 67,024</u> |

BIG BAY DE NOC SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE R – BUDGET/FUND BALANCE NON-COMPLIANCE

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Expenditures were in excess of appropriations in the following funds:

| | <u>Total Appropriation</u> | <u>Expenditures</u> | <u>Budget Variance</u> |
|--------------|--------------------------------|---------------------|----------------------------|
| General Fund | \$ 2,642,153 | \$ 2,694,531 | \$ (52,378) |

Deficit Fund Balance – A deficit existed in the unreserved fund balance of the Library Construction Fund of \$248. Public Act 275 of 1980 requires the District to file a deficit elimination plan with the Michigan Department of Treasury showing how the deficit will be eliminated.

REQUIRED SUPPLEMENTAL INFORMATION

BIG BAY DE NOC SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2006

| | Budgeted Amounts | | Actual | Variance Favorable (Unfavorable) |
|------------------------------------------|------------------|----------------|----------------|----------------------------------------|
| | Original | Final | | |
| REVENUES: | | | | |
| Local Sources | \$ 1,206,681 | \$ 1,226,566 | \$ 1,226,567 | \$ 1 |
| State Sources | 887,924 | 917,430 | 917,431 | 1 |
| Federal Sources | 297,374 | 294,560 | 294,590 | 30 |
| Other | 143,800 | 139,228 | 139,380 | 152 |
| TOTAL REVENUES | 2,535,779 | 2,577,784 | 2,577,968 | 184 |
| EXPENDITURES: | | | | |
| Instruction: | | | | |
| Basic Programs | 1,124,707 | 1,109,684 | 1,148,032 | (38,348) |
| Added Needs | 396,086 | 391,571 | 391,417 | 154 |
| Total Instruction | 1,520,793 | 1,501,255 | 1,539,449 | (38,194) |
| Support Services: | | | | |
| Pupil | 31,451 | 31,334 | 31,332 | 2 |
| School Improvement | 4,000 | 4,000 | 3,998 | 2 |
| Technology | 96,700 | 96,855 | 94,324 | 2,531 |
| Professional Development | 24,700 | 24,700 | 24,685 | 15 |
| Instructional Staff - Library | 36,339 | 42,445 | 42,407 | 38 |
| Board of Education | 20,915 | 20,915 | 18,576 | 2,339 |
| Executive Administration | 118,802 | 123,141 | 121,561 | 1,580 |
| Office of the Principal | 156,533 | 141,360 | 139,925 | 1,435 |
| Fiscal Services | 69,419 | 63,258 | 62,160 | 1,098 |
| Operation and Maintenance | 194,836 | 199,414 | 196,732 | 2,682 |
| Pupil Transportation | 217,166 | 214,675 | 207,063 | 7,612 |
| Information Services | 5,228 | 5,228 | 4,041 | 1,187 |
| Central Services | 23,800 | 30,690 | 30,481 | 209 |
| Total Support Services | 999,889 | 998,015 | 977,285 | 20,730 |
| Capital Outlay | 30,000 | 40,000 | 75,000 | (35,000) |
| Debt Service | 29,992 | 32,058 | 31,972 | 86 |
| Other | | 3,801 | 3,801 | - |
| TOTAL EXPENDITURES | 2,580,674 | 2,575,129 | 2,627,507 | (52,378) |
| EXCESS REVENUES (EXPENDITURES) | (44,895) | 2,655 | (49,539) | (52,194) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Interest Earned | 8,000 | 8,000 | 8,307 | 307 |
| Loan Proceeds | - | - | 75,000 | 75,000 |
| Operating Transfer Out | (85,000) | (67,024) | (67,024) | - |
| TOTAL OTHER FINANCING SOURCES (USES) | (77,000) | (59,024) | 16,283 | 75,307 |
| NET CHANGES IN FUND BALANCES | (121,895) | (56,369) | (33,256) | 23,113 |
| Fund Balance, Beginning of Year | 476,501 | 476,501 | 476,501 | - |
| FUND BALANCE, END OF YEAR | \$ 354,606 | \$ 420,132 | \$ 443,245 | \$ 23,113 |

BIG BAY DE NOC SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
SINKING/CONSTRUCTION**

For the year ended June 30, 2006

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------------|--------------------------|--------------------------|--------------------------|-------------------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES: | | | | |
| Local Sources | <u>\$ 324,842</u> | <u>\$ 334,695</u> | <u>\$ 334,995</u> | <u>\$ 300</u> |
| EXPENDITURES: | | | | |
| Capital Outlay | <u>447,570</u> | <u>464,379</u> | <u>452,614</u> | <u>11,765</u> |
| EXCESS REVENUES (EXPENDITURES) | <u>(122,728)</u> | <u>(129,684)</u> | <u>(117,619)</u> | <u>12,065</u> |
| OTHER FINANCING SOURCES (USES): | | | | |
| Interest Earned | <u>5,000</u> | <u>6,000</u> | <u>6,052</u> | <u>52</u> |
| NET CHANGES IN FUND BALANCES | <u>(117,728)</u> | <u>(123,684)</u> | <u>(111,567)</u> | <u>12,117</u> |
| Fund Balance, Beginning of Year | <u>454,739</u> | <u>454,739</u> | <u>454,739</u> | <u>-</u> |
| FUND BALANCE, END OF YEAR | <u><u>\$ 337,011</u></u> | <u><u>\$ 331,055</u></u> | <u><u>\$ 343,172</u></u> | <u><u>\$ 12,117</u></u> |

BIG BAY DE NOC SCHOOL DISTRICT

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

June 30, 2006

| | Nonmajor Special Revenue Funds | | | | Nonmajor Debt Service Fund | Nonmajor Capital Project Funds | | | Total Nonmajor Governmental Funds |
|-------------------------------------|--------------------------------|----------|----------|------------|----------------------------------|--------------------------------|-------------------------|----|--------------------------------------------|
| | School Lunch | Athletic | Memorial | Playground | Debt Retirement | Major Maintenance | Library Construction | | |
| ASSETS: | | | | | | | | | |
| Cash and Equivalents | \$ 2,051 | \$ 6,807 | \$ 1,596 | \$ 4,509 | \$ - | \$ 23,871 | \$ 8,464 | \$ | 47,298 |
| Accounts Receivable | - | - | - | - | 410 | - | - | | 410 |
| Due from Other Funds | 527 | 23 | 6,282 | 3,931.00 | - | - | - | | 10,763 |
| Inventory | 3,417 | - | - | - | - | - | - | | 3,417 |
| TOTAL ASSETS | \$ 5,995 | \$ 6,830 | \$ 7,878 | \$ 8,440 | \$ 410 | \$ 23,871 | \$ 8,464 | \$ | 61,888 |
| LIABILITIES: | | | | | | | | | |
| Accounts Payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ | - |
| Due to Other Funds | 23 | 1,548 | 1,863 | - | - | 13,823 | 8,712 | | 25,969 |
| Deferred Revenue | 1,721 | - | - | - | - | - | - | | 1,721 |
| TOTAL LIABILITIES | 1,744 | 1,548 | 1,863 | - | - | 13,823 | 8,712 | | 27,690 |
| FUND BALANCES | | | | | | | | | |
| Reserved: | | | | | | | | | |
| Reserved for Inventory | 3,417 | - | - | - | - | - | - | | 3,417 |
| Reserved for Debt Service | - | - | - | - | 410 | - | - | | 410 |
| Unreserved: | | | | | | | | | |
| Undesignated | 834 | 5,282 | 6,015 | 8,440 | - | 10,048 | (248) | | 30,371 |
| TOTAL FUND BALANCES | 4,251 | 5,282 | 6,015 | 8,440 | 410 | 10,048 | (248) | | 34,198 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 5,995 | \$ 6,830 | \$ 7,878 | \$ 8,440 | \$ 410 | \$ 23,871 | \$ 8,464 | \$ | 61,888 |

See accompanying notes to financial statements.

BIG BAY DE NOC SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2006

| | Nonmajor Special Revenue Funds | | | | Nonmajor Debt Service Fund | Nonmajor Capital Project Funds | | | Total |
|---------------------------------------|--------------------------------|-----------------|-----------------|-----------------|----------------------------|--------------------------------|----------------------|-----------------------------|------------------|
| | School Lunch | Athletic | Memorial | Playground | Debt Retirement | Major Maintenance | Library Construction | Nonmajor Governmental Funds | |
| REVENUES: | | | | | | | | | |
| Local Sources | \$ 36,191 | \$ 18,591 | \$ 709 | \$ 2,345 | \$ - | \$ - | \$ - | \$ - | \$ 57,836 |
| State Sources | 13,214 | - | - | - | - | - | - | - | 13,214 |
| Federal Sources | 67,222 | - | - | - | - | - | - | - | 67,222 |
| TOTAL REVENUES | 116,627 | 18,591 | 709 | 2,345 | - | - | - | - | 138,272 |
| EXPENDITURES: | | | | | | | | | |
| Support Services - Pupil: | | | | | | | | | |
| Food Services | 155,861 | - | - | - | - | - | - | - | 155,861 |
| Athletics | - | 74,765 | - | - | - | - | - | - | 74,765 |
| Total Support Services - Pupil | 155,861 | 74,765 | - | - | - | - | - | - | 230,626 |
| Community Services: | | | | | | | | | |
| Library & Playground | - | - | 2,662 | 89 | - | - | - | - | 2,751 |
| Capital Outlay | 2,213 | - | - | - | - | 11,925 | 5,260 | - | 19,398 |
| TOTAL EXPENDITURES | 158,074 | 74,765 | 2,662 | 89 | - | 11,925 | 5,260 | - | 252,775 |
| EXCESS REVENUES (EXPENDITURES) | (41,447) | (56,174) | (1,953) | 2,256 | - | (11,925) | (5,260) | - | (114,503) |
| OTHER FINANCING SOURCES: | | | | | | | | | |
| Interest Earned | 35 | 43 | 59 | 173 | - | 911 | 69 | - | 1,290 |
| Operating Transfers In | 11,637 | 55,387 | - | - | - | - | - | - | 67,024 |
| TOTAL OTHER FINANCING SOURCES | 11,672 | 55,430 | 59 | 173 | - | 911 | 69 | - | 68,314 |
| NET CHANGE IN FUND BALANCES | (29,775) | (744) | (1,894) | 2,429 | - | (11,014) | (5,191) | - | (46,189) |
| Fund Balances, Beginning of Year | 34,026 | 6,026 | 7,909 | 6,011 | 410 | 21,062 | 4,943 | - | 80,387 |
| FUND BALANCES, END OF YEAR | \$ 4,251 | \$ 5,282 | \$ 6,015 | \$ 8,440 | \$ 410 | \$ 10,048 | \$ (248) | \$ - | \$ 34,198 |

See accompanying notes to financial statements.



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal
Raymond B. LaMarche, CPA, Principal
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA
Lindsay J. Behrend, CPA
Christina A. Smigowski, CPA
Sarah M. Pelozo, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Big Bay de Noc School District
Cooks, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Big Bay de Noc School District, Cooks, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Big Bay de Noc School District's basic financial statements and have issued our report thereon dated August 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Big Bay de Noc School Districts' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Big Bay de Noc School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Big Bay de Noc School District, in a separate letter dated August 16, 2006.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than those specified parties.

Anderson, Tackman & Company P.L.C.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 16, 2006

BIG BAY DE NOC SCHOOL DISTRICT
Cooks, Michigan

REPORT TO MANAGEMENT

Year Ended June 30, 2006



ANDERSON, TACKMAN & COMPANY, PLC

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

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Sarah M. Pelozo, CPA

REPORT TO MANAGEMENT

Board of Education
Big Bay de Noc School District
Cooks, Michigan

Audit Committee Communications

We have audited the financial statements of Big Bay de Noc School District for the year ended June 30, 2006, and have issued our reports thereon dated August 16, 2006. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated August 7, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Big Bay de Noc School District. Management has the responsibility for adopting sound accounting policies for maintaining an adequate and effective system of accounts, for safeguarding assets and for maintaining the structure of the internal control system to help assure the proper recording of transactions. Our consideration of the system of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for the selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Big Bay de Noc School District are described in Note A of the financial statements.

No new accounting policies were adopted and the application of existing policies were not changed during the fiscal year. We noted no transactions entered into by the Big Bay de Noc School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Management Judgments and Accounting Estimates

Some accounting estimates are utilized in the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute or test the estimates. The most sensitive estimates affecting the financial statements were the useful lives of capital assets.

Management's estimates of the useful lives of fixed assets are based on its knowledge of the assets and past experience with similar assets. We evaluated the key factors and assumptions used to develop the useful lives in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For the purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments, individually and in the aggregate, do not have a significant effect on the financial reporting process.

Disagreements with Management

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements of the Big Bay de Noc School District, or a determination of the type of auditor's opinion to be expressed on those financial statements, our professional standards require the consulting accountant advise us so we may determine if the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Suggestions

In planning and performing our audit of the financial statements of the Big Bay de Noc School District for the year ended June 30, 2006, we considered the School's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 16, 2006, on the financial statements of the Big Bay de Noc School District.

We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than those specified parties.

Anderson, Tackman & Company P.L.C.
Anderson, Tackman & Company, PLC
Certified Public Accountants

August 16, 2006

BIG BAY DE NOC SCHOOL DISTRICT

COMMENTS AND RECOMMENDATIONS

June 30, 2006

APPROVAL OF ATHLETIC AND LUNCH FUND DISBURSEMENTS

Comment:

We noted, during our testing of disbursements for the Athletic and Lunch Funds, that the payment of bills for these two funds are not being reviewed and approved by the superintendent.

Recommendation:

We recommend all disbursements of the District be reviewed and approved by an individual independent of the accounting function. Because of the limited number of administrative staff, it is vital that all disbursements be approved by an individual independent of the accounting function in order to maintain proper internal controls over the disbursement of District funds.

Management Response:

All invoices are reviewed but in the future the Superintendent will initial all invoices as proof that he has reviewed the invoices for all funds.

BANK OVERDRAFT CHARGES

Comment:

During our testing of cash, we noted there were three overdraft charges of \$22 each in the School Lunch fund checking account.

Recommendation:

Prior to writing checks, the District should ensure that proper funds are available in each checking account to avoid overdraft charges.

Management Response:

In the future transfers to the lunch funds checking account will be made on the first of the month to cover all expenditures to avoid any future overdrafts.

BIG BAY DE NOC SCHOOL DISTRICT

COMMENTS AND RECOMMENDATIONS

June 30, 2006

PRENUMBERED CHECKS AND CHECK SEQUENCING

Comment:

During our testing of cash, we noted that the check stock is not pre-numbered and an instance where duplicate check numbers were issued.

Recommendation:

In order to improve internal controls over cash, the check stock should be pre-numbered to allow for the reconciliation of the check numbers and avoid duplication of check numbers.

Management Response:

We will order pre-numbered checks in the future.

APPROVAL OF JOURNAL ENTRIES AND BANK RECONCILIATIONS

Comment:

We noted journal entries made to the general ledger as well as bank reconciliations are not reviewed by an individual independent of the activity.

Recommendation:

An individual who is not involved in making journal entries or performing the bank reconciliations should review and approve the journal entries and bank reconciliations in order to strengthen the internal controls of the District.

Management Response:

When the Superintendent reviews journal transactions and bank reconciliations he will date and initial that he has reviewed these transaction to strengthen internal controls.

BIG BAY DE NOC SCHOOL DISTRICT

COMMENTS AND RECOMMENDATIONS

June 30, 2006

STUDENT ACTIVITIES TRUST FUND

Comment:

During our audit we noted that one school official is responsible for accounting for all the activities of the various student and parent groups.

Recommendation:

For all monies received and disbursed from the various groups, a representative from the group as well as the school official should sign the amount of each deposit and disbursement made from that groups account. Consideration should be given to segregating some of the duties relating to the student activities trust.

Management Response:

All monies received/disbursed through the student activities account will be handled by two people: a school official and the treasurer of the fund. Receipts for monies received and disbursed will be signed by both.

BUDGET/FUND BALANCE NON-COMPLIANCE

Comment:

Public Act 621 of 1978, as amended, requires the adoption of a balanced budget for the General Fund and Special Revenue Funds as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget. Expenditures were in excess of appropriations in the following funds:

| | <u>Total Appropriation</u> | <u>Expenditures</u> | <u>Budget Variance</u> |
|--------------|--------------------------------|---------------------|----------------------------|
| General Fund | \$ 2,642,153 | \$ 2,694,531 | \$ (52,378) |

A deficit existed in the unreserved fund balance of the Library Construction Fund of \$248.

BIG BAY DE NOC SCHOOL DISTRICT

COMMENTS AND RECOMMENDATIONS

June 30, 2006

Recommendation:

We recommend that budgets be amended as necessary to prevent expenditures from exceeding appropriations. The District should also file a deficit elimination plan as required.

Management Response:

A transfer to the Library Construction fund was made in July to balance this account.

The General Fund's budget variance for the expenditure was for capital outlay and revenue was received to match the expenditure in the form of a loan. An entry was not correctly made to reflect this transaction. In the future this will be corrected and entered correctly to avoid any budget variances.